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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 007561

SIPDIS

STATE FOR NEA/ELA  
STATE ALSO FOR EB/ESC/IEC

E.O. 12958: DECL: 09/21/2010  
TAGS: [EPET](#) [ENRG](#) [PGOV](#) [EAID](#) [PREL](#) [JO](#)  
SUBJECT: JORDANIAN FUEL PRICES HIKED

REF: A. AMMAN 7283

[B](#). AMMAN 5451  
[C](#). AMMAN 5311  
[D](#). AMMAN 5228

Classified By: CDA DANIEL RUBINSTEIN FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) SUMMARY: The Government of Jordan announced fuel price hikes September 21 (Ref A), prompting widespread grumbling but no disorder. Gasoline price increases of 5% and diesel increases of 22% tracked exactly the proposal that the government has been considering for the past weeks. Fuel oil for industry increased by 28.6% to JD .180/liter (USD \$0.96/gallon), still below market prices. The government took a decision to maintain fuel oil prices at JD .100/liter (USD \$0.53/gal) for its own electricity generation plants. Estimates of the savings to the budget range around JD 40 million (USD \$56.4 million). This decision in the face of public criticism indicates that the resolve to implement economic reform remains strong. Having shown such resolve, senior GOJ officials and personal envoys of King Abdullah may soon travel to Gulf States to renew their requests for additional oil assistance. END SUMMARY

[1](#)2. (C) Populist critics of the GoJ trashed the widely-rumored price hikes even before they were officially announced. As was the case after the July fuel price increases, however, there have so far been no demonstrations. The Islamic Action Front,s spokesmen were effective in putting out their message in most local media, arguing that subsidies are not the real cause of Jordan,s ballooning budget deficit, but rather years of establishment incompetence and corruption. The Anti-Normalization Committee of the professional associations issued a statement making similar points, and added a broadside at Jordanian-Israeli relations, contending that Jordanians had been promised economic benefits from the peace treaty with Israel that never materialized, and were now paying the price with the phase-out of subsidies. (Comment: In fact, Jordan continues to benefit in important ways from the treaty. Putting aside the improved investment climate that resulted from the end of formal hostilities, exports from the Qualifying Industrial Zones account for ten percent of Jordan,s GDP. End Comment.)

[1](#)3. (C) Attacking the government from a different direction, East Bank traditionalists argued in several opinion columns that the deficit and thus the price hikes were the fault of Bassem Awadallah, the Palestinian-Jordanian reformer they succeeded in pushing out of the cabinet this spring. These critics contend that Awadallah, first as Planning and International Cooperation Minister and then as Finance Minister-designate, assured the Cabinet that Jordan would secure much more foreign assistance than it actually did.

Fixed Prices Raised; Threat of Inflation  
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[1](#)4. (SBU) The increases have been matched by increases in other controlled industries. Gas station owners, household fuel delivery companies, and bottled gas distributors received increases in their fixed commissions of 6.7% to 19.4%. This came after these groups threatened a slow-down on September 15, which the GoJ took seriously enough to re-double negotiations. Truckers also receive fixed rates, which were increased by 5.5%. Truckers Association Council president Ebraheem Al-Gazawi told us that although the increase does not offset fuel price hikes, it is manageable. He expressed more concern about the planned floating of transportation rates, now set for November 13, when the industry is liberalized.

[1](#)5. (SBU) Director General of the Jordan Chamber of Industry Juma Abu-HakmeH believes the increase will have serious negative effects on Jordan's industrial competitiveness. Market forces will not allow exporters to increase their prices, thus eating away at already thin profit margins. Abu-HakmeH added that chemical industries, paint manufacturers, and aluminum fabrication would all be

seriously affected by the price increases. He predicted the current 3.4% rate of inflation would increase with time, as the result of a chain effect of price increases.

16. (U) The fuel price rises are as follows:

Gasoline (regular grade) increased by 5.5% to JD .385/liter  
(equivalent to roughly USD \$2.06 dollars per gallon.)  
Gasoline (super grade) increased by 5.2% to JD .505/liter  
(\$2.69/gal)  
Gasoline (unleaded) increased by 4.8% to JD .545/liter  
(\$2.91/gal)  
Diesel increased by 22.2% to JD .220/liter (\$1.17/gal)  
Kerosene increased by 22.2% to JD .220/liter  
Fuel oil for electricity did not/not increase  
Fuel oil for industry increased by 28.6%  
Jet fuel for Royal Jordanian Airlines (RJ) increased by 23.2%  
to JD .345/liter  
Jet fuel for carriers other than RJ stood at JD .365/liter  
(reviewed monthly)  
Fuel oil for ships was floated to market rates  
Cooking gas increased by 7.1% to JD 3.75/jar of 12.5 kg

(NOTE: Post has faxed the previous price list to NEA/ELA  
and EB/ENR - ref D)

Social Safety Net

17. (SBU) The GoJ will help ameliorate the effects of the fuel price increases on the poorest Jordanians. According to the September 29 announcement -- echoing Prime Minister Badran's lead the previous week -- a one-time cash payment of JD 50 will be made to state employees, retired civil servants and military personnel who earn less than JD 400 monthly. These new initiatives will be supplemented by a raft of programs implemented with the first fuel price hike (see ref's).

18. (C) COMMENT: This second, unexpected fuel price hike met with more vocal criticism than the first. However, repeated publicity about the GOJ's budget deficit (hovering around 8% of GDP if world oil prices hold) is convincing some Jordanians that more needs to be done to deal with increased oil costs. As with the July price hikes, the security services also probably took careful precautions to ensure that there were no organized protests against the price hikes. The government's display of resolve in announcing these price hikes is a clear signal that economic reform policies will proceed even if they are not gaining additional momentum at present.

19. (C) COMMENT CONTINUED: PM Badran recently told Charge Hale that after the King returns from the U.S., the PM will travel to Kuwait to make another appeal for assistance. Prince Ali (the King's closest brother) will travel to the UAE, and Bassam Awadallah (advisor without office) is due to go to Riyadh with the same message. They hope that the fact the GoJ is moving to end oil subsidies - and the GoJ's difficult fiscal situation - will have an impact.  
RUBINSTEIN